



Administrator's Decision on High Cost Program Beneficiary Appeal

Via Email and Certified Mail

March 1, 2013

Aimee Dietrich
Controller
Nemont Telephone Cooperative, Inc.
61 Hwy 13 S
PO Box 600
Scobey, MT 59263-0600

Re: Appeal of the FCC Office of Inspector General USF Audit Program Audits of High Cost Program Beneficiaries: Nemont Telephone Cooperative, Inc. and Project Telephone Company (SAC 482247 and 482250), Audit HC-2009-001

Dear Ms. Dietrich:

The Universal Service Administrative Company (USAC) has reviewed the appeal you filed on behalf of Nemont Telephone Cooperative, Inc. ("Nemont") and Project Telephone Company ("Project"), dated January 20, 2012, concerning USAC's decision to recover \$256,892 in High Cost Program support disbursed for the 2008 program year. The amount to be recovered was determined by audits of Nemont and Project conducted under the FCC Office of Inspector General (OIG) Universal Service Fund (USF) Audit Program. Nemont appealed USAC's determination that cost study adjustments lacked adequate documentation, engineering charges were booked in the wrong account, and expense amounts were recorded in the wrong year.¹

Decision on Appeal: Denied. USAC has determined that \$226,205 of previously disbursed High Cost Program support should be recovered.

Background and Discussion

HC2009BE001-F01 – Lack of Documentation

Nemont appeals the finding HC2009BE001-F01 stating that due to poor communication with USAC Internal Audit Division (IAD) staff at the time of the audit Nemont was unable to provide an explanation of the different warehouse storage and inventory

¹ Letter from Aimee Dietrich, Controller, Nemont, Telephone Cooperative, Inc. and Project Telephone Company to the High Cost and Low Income Division of the Universal Service Administrative Company, dated Jan. 20, 2012, page 1 (*January 20 Letter*).

methods used in its reconciliation.² In the appeal letter, Nemont included supplementary records to reconcile the inventory to the general ledger. The documentation provided by the carrier approximates the amounts recorded for the time period audited. While the amounts provided are close to the original, the carrier has not explained the original calculations that established the inventory levels for both the Nemont and Project companies for the time period audited.³ Essentially, the original calculations cannot be justified because the company did not maintain adequate documentation to ensure the allocation methodology was compliant with 47 C.F.R. § 32.12.⁴ USAC hereby denies this appeal of the finding and will recover \$155,707 of previously paid support.

HC2009BE001-F02 – Improper Charges to Telecommunications Plant in Service

Nemont's accounting procedures charged engineering costs to account 2423. FCC regulations state that account 2423 should contain only the costs of buried cable and material associated with the construction of such plant as stated in 47 C.F.R. § 32.2423.⁵ In its appeal, Nemont reiterates its stance outlined in the beneficiary's response included in the audit report.⁶ In that response, Nemont agrees that the engineering expense was improperly recorded, however the amount of support it would have received would be approximately the same over the life of the asset.⁷ In the appeal letter, Nemont does not provide any new documentation or supporting arguments, therefore USAC maintains the audit finding's recommendation, and hereby denies the appeal of the finding and will recover \$61,601.⁸

² January 20 Letter, page 2.

³ January 20 Letter, page 2.

⁴ 47 C.F.R. § 32.12 (“(a) The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts.(b) The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be filed in such manner as to be readily accessible for examination by representatives of this Commission.(c) The Commission shall require a company to maintain financial and other subsidiary records in such a manner that specific information, of a type not warranting disclosure as an account or subaccount, will be readily available. When this occurs, or where the full information is not otherwise recorded in the general books, the subsidiary records shall be maintained in sufficient detail to facilitate the reporting of the required specific information. The subsidiary records, in which the full details are shown, shall be sufficiently referenced to permit ready identification and examination by representatives of this Commission.”).

⁵47 C.F.R. § 32.2423 (“Buried cable. (a) This account shall include the original cost of buried cable as well as the cost of other material used in the construction of such plant. This account shall also include the cost of trenching for and burying cable run in conduit not classifiable to Account 2441, Conduit Systems. Subsidiary record categories, as defined below, are to be maintained for nonmetallic buried cable and metallic buried cable. (1) Nonmetallic cable. This subsidiary record category shall include the original cost of optical fiber cable and other associated material used in constructing a physical path for the transmission of telecommunications signals. (2) Metallic cable. This subsidiary record category shall include the original cost of single or paired conductor cable, wire and other associated material used in constructing a physical path for the transmission of telecommunications signals.(b) The cost of pumping water out of manholes and of cleaning manholes and ducts in connection with construction work and the cost of permits and privileges for the construction of cable and wire facilities shall be included in the account chargeable with such construction.”).

⁶ January 20 letter, page 9.

⁷ High Cost Beneficiary Report No. HC-2009-001 from USAC to Nemont Telephone Cooperative, Inc. and Project Telephone Company dated September 12, 2011, page 9 (*Nemont Audit Report*).

⁸ *Nemont Audit Report*, page 9.

HC2009BE001-F04 – Improper Expense Amounts

Nemont states that better communication with IAD staff would have clarified the company's accounting was consistent with its established expense accounting procedures. The carrier contends that the issue does not impact their financial records and is related to compliance to accrual accounting processes.⁹ Nemont supplemented their appeal with a copy of the 2007 payment for the expenses incurred in 2006 as well as the 2006 payment for the expenses incurred in 2005.¹⁰ As a result of comparing the two invoices, Nemont asserts its filings understated the expense by only \$1,554 and the recovery amount is inappropriate.¹¹ In order for USAC to audit the support received by the beneficiary, it is the responsibility of the beneficiary to accurately report the amounts in each account, as required by 47 C.F.R. § 54.301(b).¹² In this audit, the financial period under consideration was 2006. Nemont's inclusion of expenses occurring in years other than 2006 resulted in improper amounts being reported in the expense account. USAC hereby denies the appeal of this finding and will recover \$8,897.

USAC Action and Nemont Appeal Rights

USAC hereby denies Nemont's appeal and will recover \$256,852¹³ of previously disbursed High Cost Program support within 60 days of the receipt of this decision through the monthly disbursement process. If the recovery amount exceeds the current month's disbursement, USAC will continue to net the recovery amount against subsequent monthly disbursements. USAC may in its discretion and at anytime issue an invoice for all or a portion of the amount to be recovered. If any further errors are found in any of Nemont's reporting for the period under data validation herein, USAC reserves the right to recover the financial impact of those deviations.

If you wish to further appeal this decision, you may file an appeal pursuant to the requirements of 47 C.F.R. Part 54, Subpart I. Detailed instructions for filing appeals are available at:

<http://www.usac.org/hc/about/program-integrity/appeals.aspx>

//s// Universal Service Administrative Company

⁹ January 20 Letter, page 11.

¹⁰ January 20 Letter, 'Invoice Support' appendix.

¹¹ January 20 Letter, page 11.

¹² 47 C.F.R. § 54.301(b) ("Submission of data to the Administrator. Until October 1, 2011, each incumbent local exchange carrier that has been designated an eligible telecommunications carrier and that serves a study area with 50,000 or fewer access lines shall, for each study area, provide the Administrator with the projected total unseparated dollar amount assigned to each account listed below for the calendar year following each filing. This information must be provided to the Administrator no later than October 1 of each year. The Administrator shall use this information to calculate the projected annual unseparated local switching revenue requirement pursuant to paragraph (d) of this section.")

¹³ \$30,647 unappealed support + \$226,205 appealed support.